

CHALLENGES AND IMPLICATIONS OF APPLYING THE ZIMBABWEAN DOMESTIC TRANSFER PRICING RULES ON SMES: A CASE STUDY OF SMES IN HARARE

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ABSTRACT

This research study examined the challenges and implications of applying the Zimbabwean Transfer Pricing Rules on small and medium-sized enterprises (SMEs). The study explores the transfer pricing rules in Zimbabwe and their relevance to SMEs, as well as the challenges that SMEs face when attempting to comply with these regulations. The research draws on qualitative and quantitative data collected through interviews and questionnaires with SME owners, tax experts and government officials involved in implementing and enforcing transfer pricing rules. The findings of the study indicated that SMEs face significant challenges in complying with Zimbabwean transfer pricing regulations due to limited resources, lack of knowledge and complex reporting requirements. SMEs also struggle to access the necessary information and support to accurately determine arm's length prices for their transactions with related parties, which often results in penalties and fines. The study highlighted the importance of creating a conducive environment for SMEs to comply with transfer pricing regulations. This includes simplifying reporting requirements, providing support and education to SMEs and ensuring that tax authorities have a clear understanding of the unique challenges that SMEs face. Failure to address these challenges may result in SMEs being unfairly penalized and may negatively impact their ability to compete in the market.

Keywords: Domestic Transfer Pricing, Rules, SMES, Conducive Environment.

1. BACKGROUND OF THE STUDY

Governments continue to rely heavily on taxes as a source of funding, particularly in emerging nations. The Zimbabwean government updated its tax structure to comply with world norms. The Arm's Length Principle (ALP), adapted into the TP laws and regulations include timely records, is one change. Due to the complexity of the rules, domestic companies, particularly small and medium-sized businesses (SMEs), engaged in transactions with connected persons are required to use transfer prices compatible with the ALP and demonstrate their compliance. According to Sachin (2017) and PWC (2017), applying domestic TP to domestic transactions did not follow international guidelines and added difficulties on SMEs. At least half of the SMEs fail to survive during the first years of operation, according to Ahmad, Muhammad and Farooq's (2017). Cheong et al. (2020) also discovered that Malaysia's tax policies limit the expansion of SMEs and urged the development of legislative frameworks that support SME expansion. In Vietnam, Huong and Cuong (2018) discovered a strong correlation between tax compliance and government support for SMEs. According to Failey (2019), one of the primary hurdles to the development of SME's in South Africa is the country's complicated tax laws and

the red tape that follows. The Zimbabwean government has been under scrutiny for applying tax rules to citizens arbitrarily and failing to adequately engage with all important economic actors, which encouraged tax fraud by SMEs Kurauone et al. (2020).

Laffer et al. (2004) developed a theory of taxes to investigate how tax policies, particularly TP, affect SMEs. The hypothesis contends, on the one hand, that a high tax burden on SMEs will limit corporate investment strategies and restrain economic activity, which will ultimately cause SMEs to fail and bring on an economic catastrophe. According to the Laffer curve (2004), higher tax rates discourage individuals and SMEs from growing as well as discourage business owners from investing. Suggesting that unproductive tax policies could jeopardize the Zimbabwean government's efforts to indigenize (or stimulate entrepreneurship). Larger companies are unfairly given a competitive edge through tax regulations that aren't fair. Laffer (2004) goes on to say that restrictions on free market competition should be eliminated by the government. According to the notion, SMEs would be eligible for exemptions from taxes with minimal tax rates. The issue is whether SMEs can meet the TP standards, which include hiring tax professionals and creating TP documentation, among other things.

Additionally, Zimbabwe recently passed TP (TP) legislation that covers both domestic and international transactions. In contrast to TP standards around the world, which only apply to cross-border transactions, the obligations SMEs, which are currently the foundation, must adhere to TP laws and regulations. The circumstance is unusual as a result. To minimize their tax obligation, connected businesses engage in the practice of fixing pricing for regulated transactions. Mashiri (2018). This took place at a time when Majoni, Matunhu and Chaderopa (2016) claim that SMEs in Zimbabwe are facing both slower expansion and unexpected insolvency, with many failing to attain the substantial corporation status due to tax-related concerns. Even though little is known about how taxes affect SMEs in Zimbabwe, it is believed that 80% of SMEs in developing nations fail before their fifth year. (2015) SME was characterized by Ocheni and Gemade, Rahman et al. (2015) using the age of the business, the long-term objective and the diversity. This research aims to investigate the effects of the Zimbabwean government's decision to apply TP regulations on local transactions involving SMEs. This study focuses on SMEs, notably in Harare. As demonstrated by previous studies Mashiri and Schwarts (2021) that have been primarily concerned with MNEs' cross-border transactions, SMEs have frequently been overlooked in TP literature. The impact of TP restrictions on the expansion and survival of SMEs was not taken into account in this research, which focused on the consequences of TP for MNEs. The findings of this study would inform policymakers about the effects of TP regulations on SMEs' expansion and stimulate discussion of ways that would support the expansion of the SMEs sector and revive the struggling economy, leading to economic advancement. However, the effects of TP laws on SMEs' expansion are not well-documented in the academic literature. The domestication of TP legislation has made them more expensive for small enterprises to comply with. These costs consume time and knowledge that most SMEs do not have, which places a financial strain on them, according to Smulders et al. (2017). Due to the high cost of TP compliance, SMEs have no choice than to pay higher taxes than they should. TP standards add additional benchmarking complexity that SMEs are not set up to handle (Bowman, 2017). The commodities rule technique and safe harbours have both been suggested in the literature as solutions to the problems that the TP rule presents for SMEs (Solilova and Nerudova, 2015; Solilova et al., 2019).

Jousten (2017), who opposes preferential tax regimes for SMEs, argues that these measures will prolong inequality since, while SMEs pay costs for tax compliance, the tax authorities also spend significant costs for enforcing the tax rules. This study is motivated by these unresolved arguments at a period when this affected SMEs such as for example one example of a small and medium-sized enterprise (SME) in Zimbabwe that faced challenges because of a lack of support from support organizations is a start-up agricultural production company. The company developed a unique technology for greenhouse farming but did not have the resources to access capital or other necessary support from government and financial institutions. The lack of support and resources led to the company struggling to expand and become sustainable. There are many scenarios of SMEs in Zimbabwe that have closed because of this kind of tax. One example is of an SME based in Harare, Brandie products that specialized in producing footwear and other leather products but closed its business due to taxation. Another example is of an SME located in Mutare called Tribal investments that sold construction materials but was forced to close due to a lack of tax incentives from the government. Finally, a third scenario is of a SME based in Bulawayo that offered computer services, but shutdown.

1.2 Main research question

What are the challenges and implications of applying the Zimbabwean Domestic TP Rules on SMEs?

2. EMPIRICAL REVIEW

2.1 The challenges hindering compliance with TP laws

Ahmad, Muhammad and Farooq (2017) discovered that in the first 5–10 years of operation, 50% of SMEs fail to retain their survival. Cheong et al. (2020) also discovered that Malaysia's tax policies limit the expansion of SMEs and urged the development of legislative frameworks that support SME expansion. In Vietnam, Huong and Cuong (2018) discovered a strong correlation between tax compliance and government support for SMEs. According to Nieuwenhuzen (2019), complicated tax laws and the resulting paperwork provide significant obstacles to the growth of SMEs in South Africa. According to Kurauone et al. (2020), Zimbabwe's government has come under scrutiny for applying tax rules to its residents arbitrarily and without sufficient consultation with all important economic actors. This has caused SMEs to evade paying taxes.

Zimbabwe has seen years of economic collapse characterized by business closures, subpar output levels, a high unemployment rate, acute shortages of critical products and a negative payment balance to study the consequences of tax legislation. The bulk of people relied on this to survive, which fuelled the expansion of SMEs (Gukurume, 2018). In contrast to other countries where joining the SME sector may be a labour of love or a choice, in Zimbabwe, the necessity for SMEs was formed out of unemployment or the requirement to supplement income (Nambira and Gomxos, 2016). Wadesango, Denford and Sitcha (2019) claim that this industry has grown to be the foundation of the economy, accounting for more than 90% of GDP, more than 75% of the labour force and more than 70% of the data in the Zimbabwe Revenue Authority (ZIMRA) database. SMEs are praised for their crucial role in the sustainable economic development of any country, particularly in Africa and are referred to as the "roadmap to industrialization" (Muriithi 2017). Mabenge et al. (2020) emphasize their importance to the Zimbabwean economy, which Bell and Mawadza (2017) describe as gradually becoming a "SME economy."

Nigeria is a developing country with sizable mineral resources as well as abundant proven oil and gas reserves. The net result is that more foreign companies are operating here and spending more money. Due to the creation of multinational firms in Nigeria and the rise in the quantity and value of intercompany transactions between these local affiliates and their international counterparts, the Federal Inland Revenue Service (FIRS) is extremely concerned about TP. On September 21, 2012, FIRS released new TP legislation to prohibit what seems to be income shifting by foreign taxpayers out of Nigeria. These most recent regulations demonstrate a higher level of proficiency on the part of the Nigerian government in managing foreign commerce and taxation as they follow the development of formal TP principles in other developing countries. Corporate taxpayers and their advisors must become familiar with the new rules and understand the precedents and trends set by this most recent legislation in the context of their own business strategy in the area.

The Nigerian tax laws have traditionally contained regulations that govern related party transactions. Section 22 of the Companies Income Tax Act (CITA) Cap C21, LFN 2004, as amended by the CIT (Amendment) Act of 2007, which is one of the anti-avoidance measures included in numerous tax laws. If the Board determines that a disposition (defined as a trust, grant, covenant agreement, or arrangement) has occurred, it may order that adjustments be made with regard to tax liability that it deems necessary in order to offset the reduction in tax liability is not actually in effect or that a transaction that would reduce the amount of any tax payable is fictitious or artificial. The practice of distorting TP involves setting prices for transactions between related parties that are not fair market value to increase corporate profit and reduce tax liabilities. To avoid government tax regulations or to take advantage of cross-border differences in tax rates, this is accomplished by overbilling or under billing such transactions. For instance, shifting deductible expenses to the high-tax country and revenue to the low-tax country to reduce overall tax payment. Theories on SMEs and TP serve as the basis for the distortion of TP. For the former, SMEs must locate their enterprises where there is an advantage in ownership, location and internalization, as well as where operating costs are minimal. In this situation, management of SMEs may set up their organizational structure to benefit from the unique laws, incentives and local market features provided by a specific nation. The latter is oriented on maximizing profits and offers opportunities for hiding pertinent information from associates and the parent firm. In such situations, SMEs can easily alter prices to reflect their goal of minimizing overall tax exposure.

This is plausible given that SMEs employ complex and drawn-out procedures to set prices that violate the arm's-length principle. It is possible in this situation for tax authorities to miss such a distortion. Therefore, it may be challenging for revenue officials to prove whether the price was an arm's length price or not when they have a doubt. The causes are clear-cut. Revenue authorities must rely on bulk documentation created entirely by taxpayers while auditing SMEs to reassess for additional tax. These all require time and occasionally revenue with less aggressive administrative skills may not handle. The TP ideas discussed in this study have a direct impact on transfer prices between linked SMEs. Therefore, these concepts ought to be considered to counteract pricing distortion. Notably, the transfer price idea is crucial to this theory from two perspectives. In the introduction, TP is explained in terms of the arm's length principle, according to which host nations may be eligible for the correct tax share. Second, it implies TP fraud by describing TP in terms of an unarms-length price. Among connected SMEs, transfer prices are widely used to indicate fair market value. Other concepts, such as international treaties, tax havens and SMEs, provide a clearer understanding of the important considerations

the study countries must make when addressing the TP issue. Due to the shifting of economic power, TP by SMEs has raised serious concerns in both developed and developing countries. Governments have been forced to unify national legislation to encourage investment by SMEs due to the desire for governments to tax earnings on investments by SMEs on either a source or resident basis.

Countries have discovered that it is vital to remove any barrier that hinders cross-border trade to boost investment through SMEs. They include, among other things, the double taxation of SME profits by governments and SME profit shifting. The harmonization or unification of substantive legislation is necessary for the effective and efficient taxation of profit by SMEs. As a result of this need, multilateral organisations' tax treaties have made it easier to adopt global TP regulations. Transfer price standardization has received attention in this context in order to control transactions between connected SMEs. Therefore, tax conventions serve as a standard against which nations create their own domestic rules and provide guidelines for TP laws. However, because they come from industrialized nations, TP guidelines that have evolved as models for uniformly establishing local TP legislation may have some limits for developing nations like EAC. The TP regulations as they appear in international law are highlighted in this chapter. When analysing transfer prices between affiliated SMEs as a factor influencing the market in a specific nation, the impact of government policies must be taken into consideration. Sometimes, for policy reasons, the government intervenes in the market and changes how transactions are conducted. It is important to contrast the impacted transactions of associated SMEs with those of independent parties affected by the same intervention. The revenue authorities are expected to take government action into account when calculating arm's length price.

2.2 The Justification of domestic TP on SMEs

It is possible to categorize the intercompany transfer of cloud computing resources as the transfer of an intangible or tangible asset, depending on the quantity and type of rights and liabilities transferred in the transaction. The transaction might be referred to as a cloud computing transaction if it is covered by the software regulations. To be covered by the software regulations, a transaction normally needs to entail the transfer of a computer program, the offering of services for the creation or modification of a computer program, or the sharing of knowledge pertaining to a computer program. Any media, user guides, documentation, databases, or comparable objects that are incidental to the execution of the computer program are included in the definition of a computer program. According to this terminology, a cloud arrangement that provides access to the company's software or related databases, documents, or similar materials satisfies the first condition and conforms to the definition of a computer program.

The second criterion may not be met by a cloud transaction because it is unknown if a computer program has been transmitted. Before the software was moved to the cloud, affiliates who used it would either get a physical copy or download an electronic copy to the computer where it was installed. But by moving to the cloud, the owner of the computer software no longer provides a physical or digital copy of the program to the linked firms for use. Instead, to access the software and data, these firms just use the Internet. The risks associated with maintaining the software and supporting hardware are also no longer their responsibility. Unless the customers can also download a copy of the program from the Internet or a disk, transactions that grant customers access to online software are not considered transfers, according to the Department of

the Treasury ("the Treasury"). This illustrates how, even though it expresses the Treasury's position in a different context, in some cases, online access to software may be treated differently than a transfer through physical disk or download for tax purposes. There is therefore a strong argument on the one hand that allowing affiliated entities to utilize a company's cloud-based software does not constitute a "transfer" of the software. This way of reasoning results in the prediction that the transaction will most likely be categorized as a service provision. The pricing of intercompany services transactions can be done using TP methodologies, as was further explained.

However, one may also make the case that software regulations apply to cloud computing transactions. According to the software regulations, the laws are applicable "regardless of the physical, electronic, or other medium utilized to effectuate the transmission of a computer program." Therefore, if cloud computing activities simply constitute a means of computer program delivery, they might be covered by the software regulations. This is especially true if the person using cloud computing services is given the appropriate ownership rights and obligations. The transaction would not be considered the supply of services under these circumstances. Instead, just as it would have been prior to the migration to the cloud, the cloud computing transaction would be categorized as either the transfer of an intangible asset or the transfer of a tangible asset. A different set of TP approaches than those used to price the provision of services would be required to determine the arm's length price of the transfer of tangible or intangible assets.

2.2.1 Provision of Services

The classification of cloud-based transactions as service supply is also appropriate and may even be more accurate. There is a strong case to be made, as was already indicated, that most cloud computing transactions do not involve the transmission of a computer program and are therefore exempt from the software regulations' application. Conventional categorization rules state that whether a transfer of property rights does place has a significant impact on how the transaction is classified. If there is no property right, either in fact or form, in this situation, the transaction is often referred to as the providing of services.

Recent case law indicates that this choice is generally determined by which party bears the risk of the transaction and which party retains control over its execution. Depending on the particular facts and circumstances of the cloud arrangement, the entity acting as the cloud service provider in many cloud computing transactions bears a significant amount of loss risk and retains control and possession over the software, applications and underlying infrastructure. In these situations, the cloud service provider does not relinquish any ownership rights in the hardware, programs, or applications used in the cloud computing transaction. Because of this, switching to the cloud may cause the U.S. TP regulations to classify intercompany cloud computing as a service. If cloud computing transactions are regarded as intercompany provision of services under the TP regulations, the arm's-length amount charged must be established using one of the following methods. The price of comparable unregulated services, the gross service margin and the cost of services approaches.

2.2.2 Integrated transaction

It is also conceivable that some aspects of a cloud-based transaction could be categorized as the transfer of a tangible or intangible asset, while other aspects could be categorized as the provision of services. The TP regulations state that a connected transaction may be subject to more than one TP method if it can be most reliably examined separately. Because of this, the

characterization is credible. An entity acting as a cloud service provider may offer its affiliates a variety of services, some of which are comparable to the transfer of a computer program and others of which are true services, so it may be necessary to examine a cloud computing transaction as two separate transactions in order to determine the proper transfer price. If this classification is accurate for TP purposes, a variety of TP procedures may be applied to account for the different elements of the transaction, which could result in a variety of arm's-length considerations.

In summary, cloud computing transactions do not neatly fit into any of the recognized tax classes. As a result of using an intercompany cloud, SMEs must deal with compliance difficulties. It is not yet clear if cloud computing transactions fall under the definition of a computer program transfer for the purposes of the current tax laws. Because of this, it's possible that while using the cloud for business, a transaction will be categorized as the transfer of a service rather than a tangible or intangible asset. It is difficult to classify cloud-based activities due to the flexibility of cloud computing, which allows organizations to arrange their operations using a variety of cloud business models. Because of this, there is no simple way to characterize cloud computing transactions and all of the characterizations discussed above are valid choices. Because the appropriate TP approach to test the transaction depends on how the transaction is described, this choice will have a significant impact on the benchmarking research required to prove the intragroup transaction as an arm's-length transaction. The "best method" among the many alternatives is not always evident, to add to the confusion. SMEs and tax authorities may disagree on which method best captures the outcome at arm's length. It will become more challenging as the cloud computing business model develops because the transaction's potential classification is also likely to change. Although there are risks associated with tax compliance for SMEs using the cloud, many of these uncertainties can create business opportunities. With careful planning, SMEs can set up their corporate structures to take advantage of the TP rules, dramatically lowering their overall worldwide tax bill. Base Erosion and Profit Shifting (BEPS) is significantly facilitated by this type of aggressive TP, even though it is legal. BEPS is not a brand-new issue; it already exists to a significant extent outside of the cloud context, but the recent appearance, quick development and an increase in its prevalence within the cloud context make it particularly problematic.

The domestication of TP rules has deteriorated compliance costs (Saunders-Scott, 2013), which has higher cost consequences for small firms (Solilova et al, 2017). These expenses demand time and knowledge that SMEs lack, which places a financial strain on them (Smulders et al., 2017). Due to the high cost of TP compliance, SMEs are forced to pay higher taxes than they should (Solilova et al. 2019; World Bank Group, 2019). According to Ezenagu (2019), TP standards add additional benchmarking complexity that SMEs are not set up to handle (Bowman, 2017). The commodities rule technique and safe harbours have both been suggested in the literature as solutions to the problems that the TP rule presents for SMEs (Solilova and Nerudova, 2015; Solilova et al., 2019). Jousten (2017), who opposes preferential tax regimes for SMEs, argues that these measures will prolong inequality since, while SMEs pay costs for tax compliance, the tax authorities also spend significant costs for enforcing the tax rules.

TP laws with relation to matters including selecting the TP approach, creating appropriate paperwork and working with tax advisors. The majority of them stated that they were unable to estimate the prices due to the necessity to take time, transportation expenses and other ancillary expenditures into account. Solilova and Nerudova (2018) add further evidence to the SMEs' failure to anticipate costs connected to tax-related difficulties with any degree of accuracy.

However, only those who employ consulting services (6/11) are able to calculate their consulting costs. The three SMEs' yearly consulting rates for all tax concerns ranged from USD5 to USD6 300, whereas the compliance costs for those who hired TCs for TP were in the USD9 000 to USD10 800 range. For SMEs, these expenses are rather significant. ZIMRA mentioned that the primary issues SMEs encounter are a lack of the necessary knowledge and resources and TCs noted the problem of acquiring information on similar transactions. They noted the hiring of less qualified staff and the lack of funding to retain the services of tax experts when asked to comment on the resources that are in short supply. This was further supported by the TCs when they said that SMEs could not pay the fees for the services of tax consultants. They bemoaned the outrageous tax consulting prices, saying that they prevented many people from using their services and left them at ZIMRA's mercy. The TCs claimed that the reason larger businesses employ them more frequently than SMEs is due to the high costs associated with doing so. SMEs repeatedly stated that they couldn't pay us and couldn't afford us. When pressed further, TCs stated that the major corporations are the ones that are more frightened and concerned about tax concerns than the SMEs, which is another explanation for the low subscription from SMEs. In addition, it is stated that "SMEs have a catch me if you can attitude" which explains why they are hesitant to use tax advisers. Some of the SMEs who said they never sought the advice of tax experts emphasized that the high costs kept them away and some of them admitted to using unregistered tax advisors.

This result is in line with Rita and Onyeukwu's (2019) assertion that small and medium-sized enterprises (SMEs) rely on tax specialists to handle their tax issues and Baporikar, et al.'s (2016) emphasis that SMEs cannot afford to hire professionals. The insufficient taxpayer education provided by ZIMRA makes it even harder for people to access competent tax guidance. The respondents had conflicting opinions on this issue, with SMEs and TCs admitting that ZIMRA is not giving enough tax education while ZIMRA maintains that it is doing so regularly. The problem of comparable data was another crucial topic that was brought up. According to TCs, real estate companies are a straightforward source for comparable data regarding leasing transactions and the Reserve Bank of Zimbabwe (RBZ) is a straightforward source for comparable data regarding financial transactions. However, obtaining comparable data for the remaining transactions is a challenging task. Following the identification of the core of the commercial or financial relations through the analysis of economically significant aspects, a delineated transaction between linked parties is recognized for TP purposes. According to the arm's length principle, transfer price is calculated using the specifics of the actual transaction as described. The general rule is that a transaction shall be recognized for TP purposes if it can be proved to have taken place between independent parties under comparable circumstances. There is one situation where this rule does not apply. If, when taken as a whole, the precisely characterized transaction lacks the commercial rationality of agreements between unrelated parties in comparable circumstances, the transaction may be rejected for TP purposes. Although this is implied from the guidance's examples, it is not explicitly stated in the guide under what conditions an adequately delineated transaction may be rejected.

If a SME associate often experiences losses while conducting business, the guidance further stipulates that the losses must be investigated for TP considerations. It is assumed that a partner cannot continue to generate revenue if it consistently experiences losses. As a result, there is a way that affiliated SMEs can profit from that business. Therefore, only reasonable losses may not be considered when conducting a TP study. Therefore, it is necessary for both the taxpayer and the revenue authorities to examine justifiable losses that would not be included for

TP considerations. According to a general rule, losses are legitimate if they are sustained over an appropriate time period and are incurred to achieve particular goals of the business strategy. Consequently, the same kinds of losses that would have been sustained by an independent firm in accordance with the arm's length concept. In the context of business strategy, losses are not justified if they persist for a lengthier time than is fair, especially when comparative data spanning several years demonstrates that the losses have been sustained for a longer time than that affecting comparable independent corporations. The report does not, however, offer recommendations for what constitutes a suitable time span. Once more, the term "reasonable" as it is employed is ambiguous and unmeasurable, which creates legal doubt.

3. METHODOLOGY

The study adopted a mixed research approach, utilizing both qualitative and quantitative data collection techniques. 10 interviews were conducted to gather the qualitative information with representatives from ZIMRA and tax consultants from Harare. The interviews were semi-structured and centered on the challenges of applying the Zimbabwean domestic TP rules for SMEs. 30 questionnaires, which were given to SMEs respondents, were used to gather the quantitative data. The purpose of the questionnaires was to collect information about the difficulties with compliance and the efficiency of the laws in preventing tax evasion, see Table 1.

Table 1. Analysis of respondents

Participant	Number of responses to questionnaires	Number of interviews
SMEs representatives	30	-
ZIMRA officials	-	5
Tax consultants (TCs)	-	4

Source Primary data collected by author

4. DATA PRESENTATION AND ANALYSIS

4.1 Use of tax consultants by SMEs

The following answers to the questionnaires were found. 6 out of 10 SMEs, or about 60%, said they utilize tax professionals, the remaining 4 out of 10 (40%) complained about the price of such services. Only about 17% (1/6) of the 6 SMEs use tax consulting services exclusively to determine the appropriate TP method, as shown in figure 1. Of the 6 SMEs, 3/6 use tax consulting services for all of their tax matters, regardless of whether TP issues are involved.

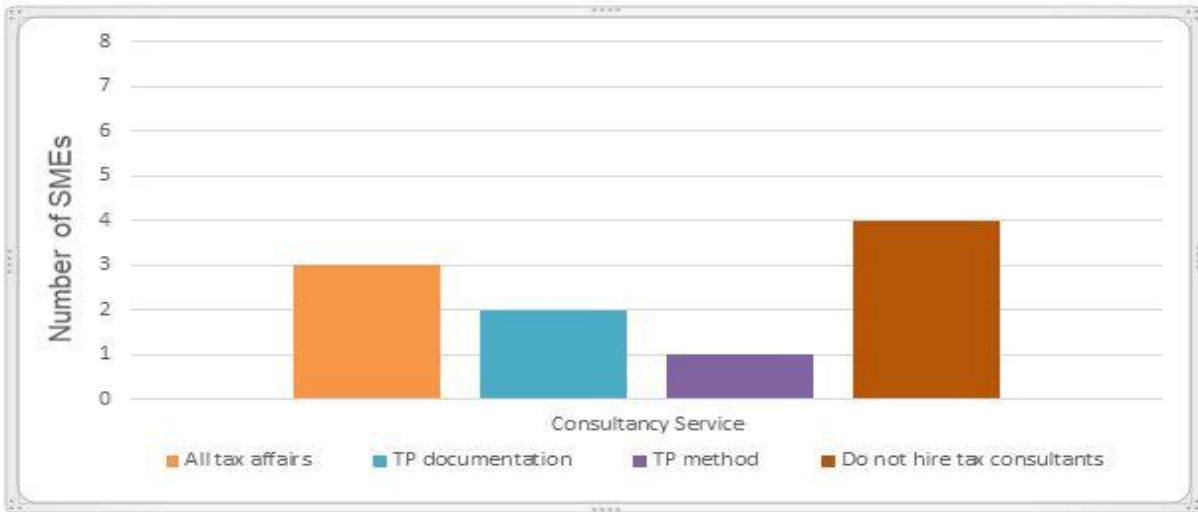


FIGURE 1
SERVICES FOR TAX CONSULTING THAT SMES USE

Even though big enterprises make up the majority of TCs' clients, a large percentage of their TP tax advice is concentrated on domestic rather than global operations. This was related to the macroeconomic situation of Zimbabwe, which deters many international investors from operating there and is characterized by a dominant indigenous business sector. According to ZIMRA and TCs, related party transactions are required to be disclosed under Zimbabwean law regardless of whether they are domestic or international transactions. Information was provided in response to the question of whether TP occurs between branches of the same company whenever a trading firm engages in transactions with related parties, such as subsidiaries to subsidiaries or subsidiaries to holding companies, is registered as a separate legal entity. Two connected businesses are extremely likely to reach an agreement to reduce their overall tax bill inside the same country, according to Taxmatrix (2016).

4.2 Understanding of domestic TP requirements

Because they did not have much to say about how the Zimbabwean TP legislation and rules functioned other than the fact that they were aware they had to comply, the findings indicated that SMEs are unclear of precisely what is expected of them. Nearly 71% of TCs expressed concern about the application of TP restrictions to domestic transactions, even though the OECD did not address this. We need a guideline, for instance on the thresholds at which people are required to comply with the rules, because our legislation refers to domestic transactions, but the OECD does not mention domestic norms.

The requirements of the TP rules are not yet familiar to the ZIMRA officials charged with implementing them. Their ignorance suggests that there is scant to no enforcement. This was comparable to the emphasis made by Shongwe (2019) and Mashiri (2018) on the weak and ineffective TP enforcement in developing countries. Although ZIMRA acknowledged that it remains fixated on significant clients (those companies with associated parties that contribute 60–80% of the total taxes), it also asserted that the revenue from SMEs is just as important, despite being smaller than that of large corporations.

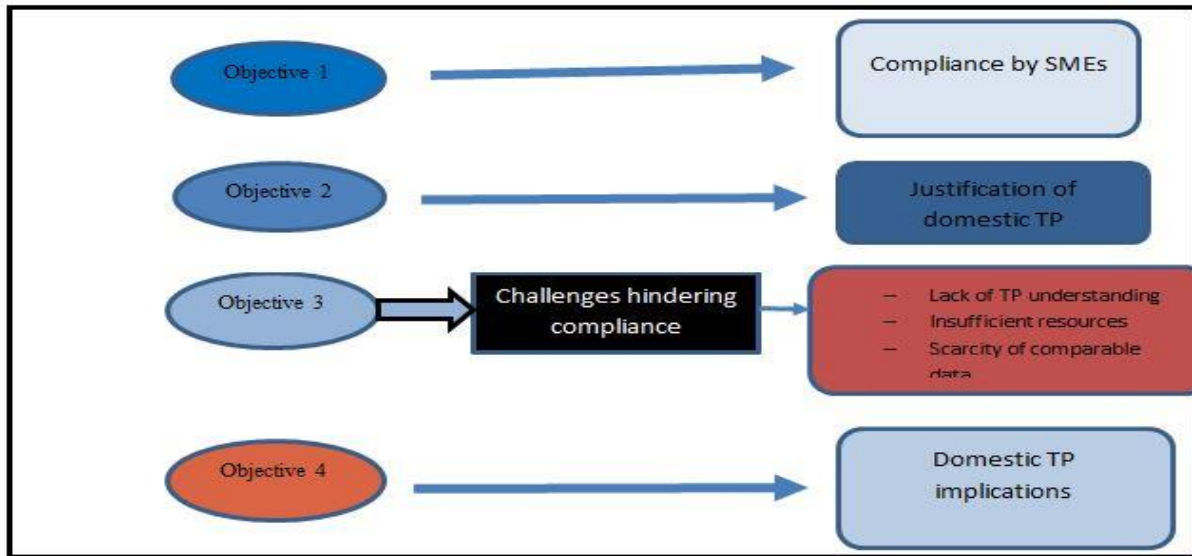


FIGURE 2
ALIGNMENT OF VIEWPOINTS TO RESEARCH OBJECTIVES

Source: Field data

4.3 Compliance by SMEs

The amount of TP law compliance among SMEs was the topic of the following query. It was evident that the likelihood of non-compliance with tax laws increased due to the complexity of the tax system and the high compliance expenses. Because of this question's sensitivity, SMEs did not feel comfortable responding and the majority merely stated that they are doing their best. Businesses budgeting for costs that weren't incurred in line with section 15 (2a) of the Income Tax Act is a significant non-compliance, according to ZIMRA. Companies are not consistently using TP techniques, which is against Zimbabwean law and provides grounds for the modification that IFRSs are requesting. The businesses use a way that benefits them in specific situations and change when they believe the same method harms them, but they never explain why they changed. This illustrates the taxpayers' logical tendencies, as demonstrated by Mashiri (2018). The TCs who work more closely with SMEs said that because TP is still in its infancy, there is no precedent for developing pricing structures for services that call for the cost-plus method; most SMEs also use a percentage of revenue that is illegal under the law.

It was noted by the number of questionnaires discarded during data cleaning that a lot of SMEs are not complying with the TP rules. According to the research earlier on, only 60% (6/10) SMEs utilise the services of tax professionals. Therefore, it is evident that a few SMEs comply with the TP rules. According to TCs and ZIMRA officials, the methods of TP method used by SME over a particular period of time can determine the extent to which SMEs comply with TP. Out of the 6 SMEs, Only 1 use the CPM method and only 2 use the CUP method. The rest utilise the service of unprofessional TCs, thereby accounting for 50% level of non-compliance. Figure 3 below illustrates the information.

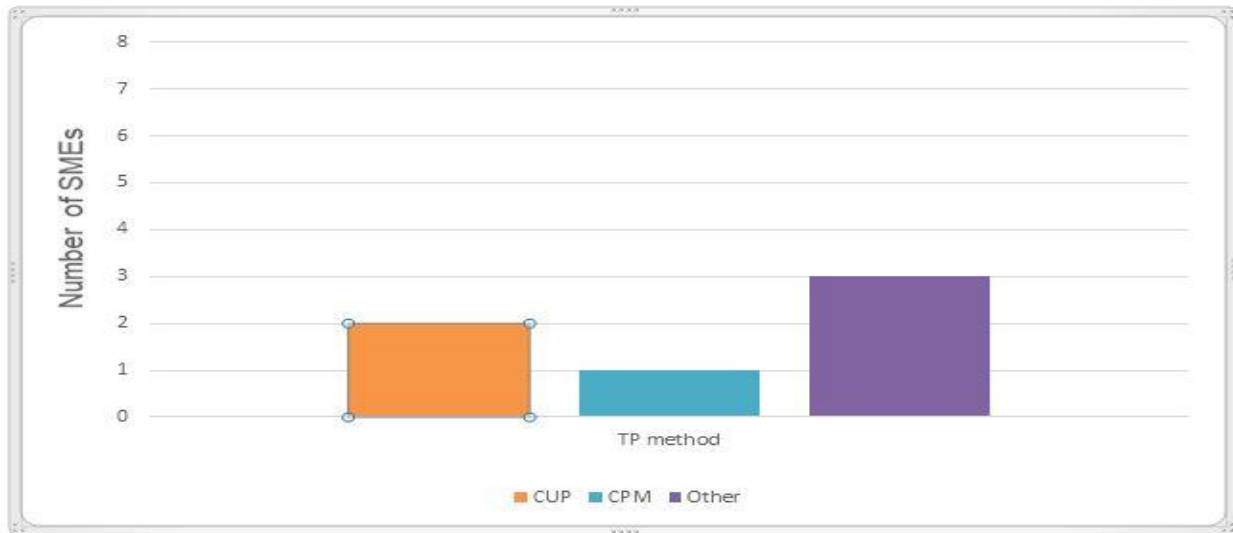


FIGURE 3
THE LEVEL TP COMPLIANCE BY SMES

Source: Field data

Majority 60% (6/10) of the SMEs desired to be exempt from TP regulations, while 20% (2/10) proposed a TP regime that is streamlined with fewer fines and no TP requirements for documentation. SMEs can have a predetermined pricing with ZIMRA using Advance Pricing Agreements (APAs), which will lessen the possibility of conflicts with ZIMRA, according to only 1/10 of respondents. Only 10% (1/10) of respondents supported a safe harbour regime with favourable circumstances for SMEs whose turnover falls within certain thresholds. The TC interviewees concurred with the minority of SMEs who support a safe harbour, pointing out that it is widely used in countries that are OECD members. Ezenagu (2019) verifies that safe harbours for small taxpayers are common in OECD countries and the bulk of Zimbabwe's regulations are in conformity with OECD standards. ZIMRA interviewees concurred that TP limitations should not apply to SMEs since doing so would be both costly and ineffective. The responses are summarized in Figure 4 below.

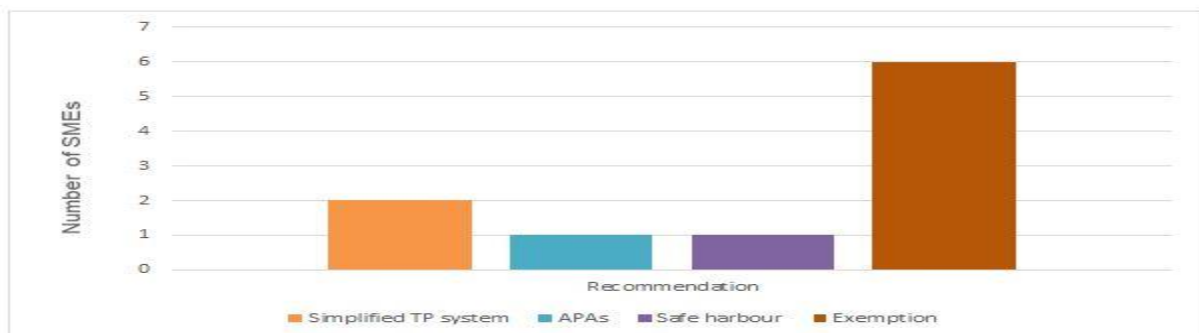


FIGURE 4
POSSIBLE RECOMMENDATIONS

Source: Field data

4.4 Justification for domestic TP on SMEs

One of the interviewees expressed regret about the decision to target SMEs, arguing that even after combining their receipts, their contribution to tax revenue is insignificant and is therefore more costly than beneficial. In line with this assertion, Oguttu (2016) noted that there aren't many examples of revenue leakage from affiliated companies that are domestically based. The interviewee claimed that for SMEs with transactions centralized at the head office, since the majority of transactions will mostly consist of stock transfers between the dependent branches, there is scarcely any transactional profit to examine. Therefore, when the companies are separately registered, operate their activities without contacting the main office and when there are related (subsidiaries, joint ventures, partners, etc.), TP issues occur more frequently.

4.4 Issues preventing SMEs from following TP laws

Challenges with TP that SMEs face are shown in Figure 4. Given their poor level of compliance with TP rules, this was thought to be crucial in order to comprehend how domestic TP affects SMEs.

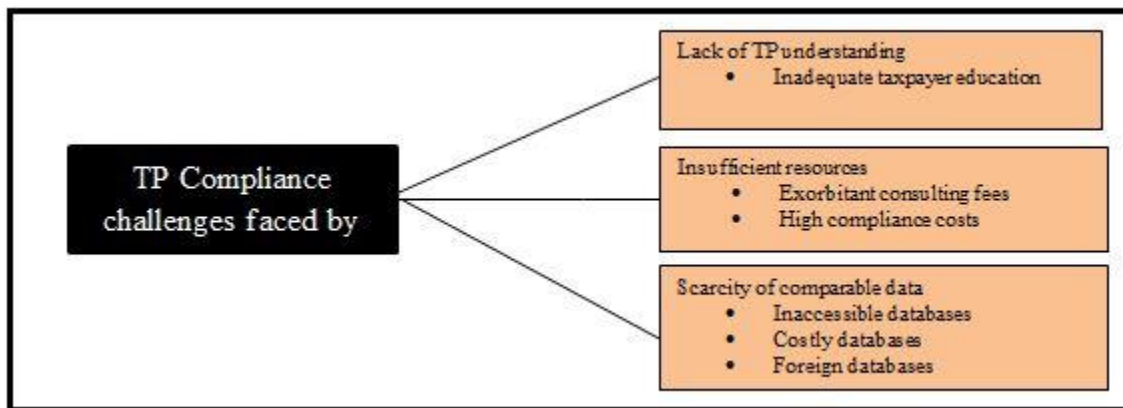


FIGURE 5
REASONS FOR NON-COMPLIANCE WITH TP LAWS

Source: Field data

All of the respondents (SMEs, TCs and ZIMRA) agreed that domestic TP poses a number of challenges, particularly for SMEs. They identified three significant roadblocks to SMEs' full compliance with the TP legislation

- i. Lack of TP understanding
- ii. Insufficient resources
- iii. Scarcity of comparable data and

4.5 Lack of TP understanding and insufficient resources

ZIMRA mentioned that the primary issues SMEs encounter are a lack of the necessary knowledge and resources and TCs noted the problem of obtaining data on comparable deals. When questioned about the limited resources, they mentioned hiring fewer skilled workers and not having enough money to hire tax experts. The TCs provided additional evidence for this when they claimed that SMEs could not pay the fees for the services of tax consultants. They bemoaned the outrageous tax consulting prices, saying that they prevented many people from using their services and left them at ZIMRA's mercy. The TCs claimed that the reasons why

major businesses use them more frequently than SMEs are primarily related to the high fees associated with doing so. Several of the SMEs who said they never sought the advice of tax experts emphasized that the high costs kept them away and some of them admitted to using unregistered tax consultants. This outcome is consistent with Baporikar, et al.'s (2016) allegation that SMEs cannot afford to hire experts and Rita and Onyeukwu's (2019) claim that SMEs rely on unregistered tax practitioners for their tax matters. ZIMRA's mainly inadequate taxpayer education makes it harder for people to get qualifying tax assistance. The perspectives of the respondents on this matter were divided, with SMEs and TCs acknowledging that ZIMRA does not provide adequate tax education while ZIMRA insists that it does so frequently.

All the SMEs bemoaned the TP legislation's inclusion, it is said that MNCs should be the target as their income cannot support the high compliance costs. The expense of complying with the TP legislation infuriated every SME. They claimed that the burden of paying taxes prevented SMEs from developing into significant businesses, which is crucial for Zimbabwe's struggling industrial sector. The SMEs were also asked to estimate the costs associated with selecting the TP technique, creating pertinent documentation and employing tax advisors to comply with TP requirements. Most of them stated that they were unable to estimate the prices due to the necessity to take time, transportation expenses and other ancillary expenditures into account. Solilova and Nerudova (2018) further demonstrate that SMEs are unable to estimate the costs associated with tax-related issues with any degree of accuracy. However, only those who employ consulting services (6/10) can calculate their consulting costs. The 3 (3/10) SMEs' yearly consulting rates for all tax concerns ranged from USD5 000 to USD6 000 whereas the compliance costs for those who hired TCs for TP were in the USD9 000 to USD10 800 range. These expenses might be substantial for SMEs.

4.5.1 Scarcity of comparable data

The problem of comparable data was another crucial topic that was brought up. Since financial transactions are governed by the Reserve Bank of Zimbabwe (RBZ), The TCs added that real estate corporations easily provide comparable data related to lease transactions, but it is challenging to obtain data for the remainder transactions. This knowledge is necessary for SMEs to use some TP techniques such as Comparable Uncontrolled Price (CUP) which are outlined in Zimbabwe's TP Act. The already onerous compliance requirements such as creating TP paperwork are increased by this restriction. All the SMEs mentioned that it takes a lot of time and effort to prepare the TP paperwork. The TCs also agreed that SMEs find it "taxing" to comply with laws and regulations governing TP, particularly when it comes to creating TP documentation. TCs support the removal of TP compliance costs for SMEs because they concur that these costs are excessively high for SMEs. One of the TCs said that they had submitted a report to ZIMRA with the suggestion that they define minimum standards for people who should be preparing TP documentation. This is meant to relieve very small enterprises from significant compliance expenses and is compatible with the UN's (2017) suggestion of thresholds for documentation requirements. According to the literature (Solilova et al. 2019, Solilova et al. 2017, Saunders-Scott, 2013), Increased TP regulation is closely linked to high compliance costs for SMEs. One of the TCs also mentioned their screening procedure, in which they disqualify some potential clients based on the size of the business. This implies that even those small enterprises that might be willing to abide by the TP standards might not be able to receive tax help and given the complexity of the TP rules, the SMEs would not be able to correctly apply the law. When asked if their pricing strategy is segmented to cater to small enterprises, the tax

consultant said that their fee is dependent on the volume of transactions, the complexity of the transactions and the approach to be employed in economic analysis or functional analysis.

4.5.2 The ability for ZIMRA to implement the TP

The ability of ZIMRA to carry out the national TP laws is shown in Figure 3. Given that revenue authorities in developing countries have a limited capacity to implement TP regulations, it was crucial to assess ZIMRA's ability to carry out TP laws and guarantee compliance at all levels (Kabala & Ndulo, 2018, Mashiri, 2018, Oguttu, 2016). ZIMRA attempted to downplay its limits, but TCs and SMEs affirm this based on their dealings with the revenue authority, according to the differing viewpoints that were presented on this matter. The identified capacity shortfalls are shown in Figure 6.

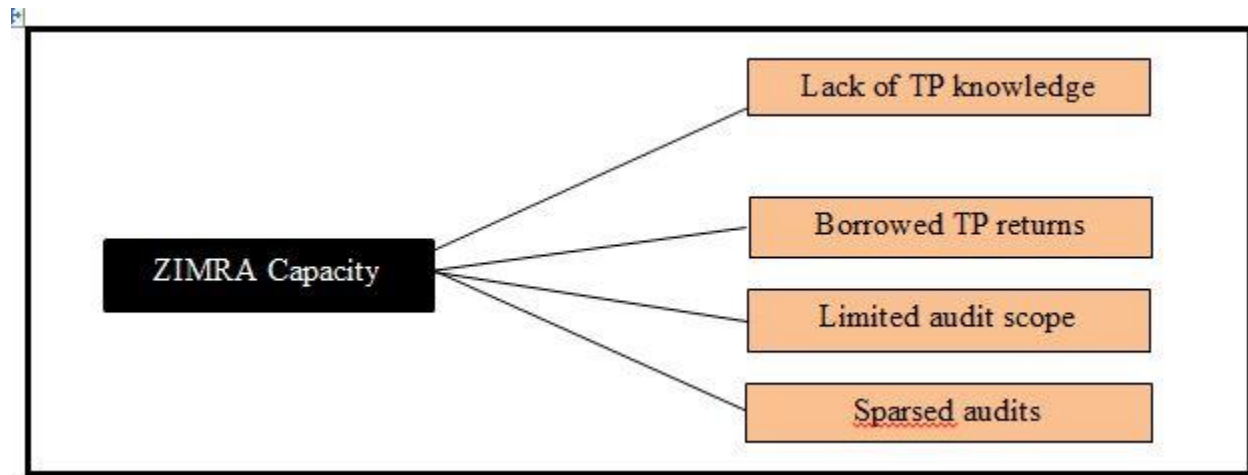


FIGURE 6
ZIMRA CAPACITY WEAKNESSES IN ENFORCING TP RULES

Source: Field data

It was clear that despite ZIMRA's assurances that it had educated taxpayers sufficiently, the TCs think more needs to be done. According to ZIMRA, SMEs typically do not read or apply such material; instead, they raise awareness through tax education seminars and the taxman's corner forum, which is often featured in Zimbabwe's publications. ZIMRA needs to perform a number of things, according to TCs, before taxpayers will fully understand TP legislation. However, they were noteworthy in sharing the together with the taxpayers, take practice notes.

Another issue is the TP return that SMEs must complete and detail all related party transactions (income and spending). SMEs agreed that they have difficulty finishing the TP return. These implementation difficulties are made more difficult by ZIMRA's limited expertise in the area. The TCs emphasized that several ZIMRA claimed to be ignorant of some crucial aspects of the TP legislation. Contrary to popular belief, Oguttu (2016) emphasized that the OECD does not adequately address the unique demands of African emerging states. As a result, countries should not just follow the dictates of international law but should instead use their sovereign rights. Durst (2015) claims that issues facing emerging nations cannot be resolved at the international level. Mashiri (2018) asserted that to meet national requirements, African governments must focus on home solutions to their TP problems. He argued that due to the

unique economic and political structures of these states, a special approach is required. This is significant because, to meet its economic needs, the Zimbabwean government must decide between strengthening its TP rules and fostering a "pro-business environment" (Hasseldine et al., 2012).

When asked whether ZIMRA was being tough in its enforcement of TP rules, the majority of the TCs admitted that ZIMRA is still getting to grasp this legislation. When questioned further, the TCs provided an explanation for this by stating that ZIMRA is still learning and doesn't appear to be familiar with the other transactions. Similar to the majority of developing countries, where the lack of resources and skill in auditing by the tax authorities makes it challenging to undertake TP audits (Shongwe, 2019; Mashiri, Dzomira & Dzingirai, 2021; McNaire et al. 2010). One of the TCs thought that since ZIMRA TP audits are revenue-driven and seem to have discovered a weakness in most taxpayers, management fees constitute a potential chance for making a large amount of money. This result is consistent with the findings of Sebele-Mpofu et al. (2021a), who found that management services were the main TP strategy that taxpayers were in control of. ZIMRA acknowledged that they have not been as active with TP audits, particularly about SMEs, because they are still trying to grasp TP and are focusing on the big companies. This indicates ZIMRA's effort to exercise prudence despite its resource constraints.

This study might conclude that ZIMRA is underequipped to administer TP rules because everything pointed to the inadequate execution of TP legislation and regulations. This supports the claim made by Kabala and Ndulo (2018) that most African tax authorities lack knowledge of TP challenges and have a basic comprehension of them, making it impossible for them to put TP standards into practice. Zimbabwe is urged by Sebele-Mpofu, Mashiri and Korera (2021) to establish unambiguous TP legislation and invest in ZIMRA's capabilities.

4.6 Implications of domestic TP on SME

For SMEs, domestic TP proved to have significant implications. The implications that were discovered from the analysis are gathered in diagram below

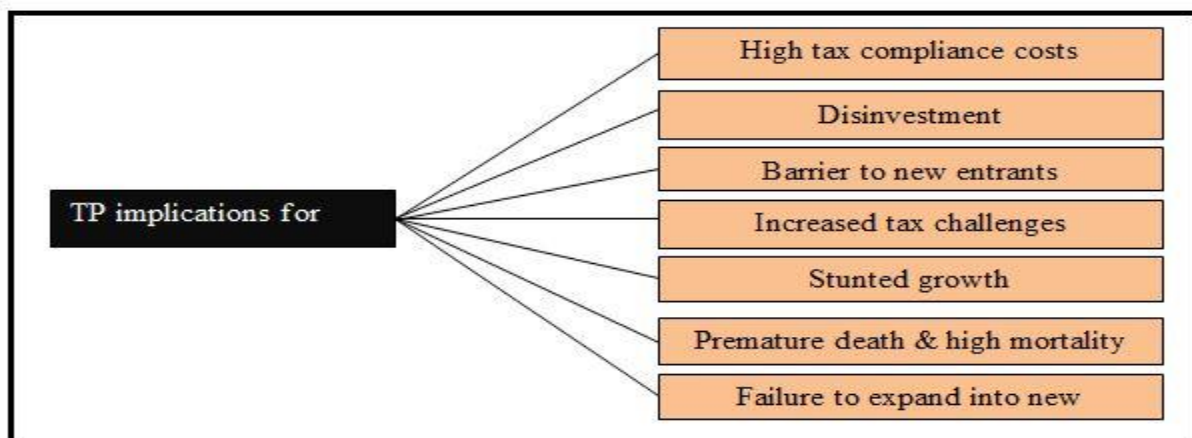


FIGURE 7
CONSEQUENCES FOR SMES OF TP REGULATION COMPLIANCE

Source: Field data

It was evident that there are a number of SMEs-related ramifications that may not be advantageous to the SMEs or the entire economy. The themes that arose from the analysis and are depicted in figure 4 were used to determine the implications. Both TCs and SMEs expressed outrage about the inflated tax compliance costs. This is consistent with the suggestion made by Solilova (2019) that TP responsibilities burden SMEs. Statistics also demonstrated that SMEs may stop investing because of these prohibitive compliance expenditures.

4.7 High tax compliance costs

Given that Sikka and Willmott (2010:9) mention that developing countries tax authorities can only adjust TP if they have the necessary administrative and legislative resources, taking into account the peculiar characteristics of Zimbabwe's economic, social and political environment and closely examining the complex structures and practices within the nation was crucial. Additionally, participants acknowledged that foreign laws should not be used unfairly to govern domestic transactions and that they expose the national tax base to a TP risk. Tax consultants were the ones who spoke out the loudest about the non-selective implementation of domestic TP is opposed by the pro-business stance, according to the argument that it costs SMEs. It appears that linked companies with local transactions are the ones that comply with the laws more than those with cross-border transactions, notwithstanding the tax consultants' complaints about the applicability of TP rules to domestic transactions. This undoubtedly deters compliant businesses and has financial repercussions that ultimately benefit the general welfare. Research indicates that Zimbabwe is the only nation to apply TP to domestic transactions, which places a significant burden on local enterprises to adhere to the law given that TP is not addressed in international standards. Finally, this paper suggests domestic TP be reconsidered from a Zimbabwean perspective.

4.8 Stunted growth

Most of the SMEs expressed their anger about how the TP duties prevent them from expanding, prevent potential SMEs from joining the market and reduce the opportunities for current SMEs to merge with major corporations. According to one of the SMEs, "the majority of the promising and vibrant SMEs went into bankruptcy and closed between 2017 and 2019 most likely because of excessive tax obligations," and now worries that his company would experience the same problem. TP poses a serious threat to Zimbabwe's ability to collect tax income, with an estimated \$1.5 billion in lost revenue between 2009 and 2013 (ZIMRA, 2014), according to research by the Zimbabwe Income Authority (ZIMRA). The Zimbabwean government issued TP legislation in 2013 to address this problem, requiring taxpayers to keep records to justify their TP practices.

Due to their limited resources and knowledge, SMEs may struggle to comply with these rules. A report by the International Centre for Tax and Development claims that SMEs in Zimbabwe could not be aware of the rules governing TP and might not have the resources necessary to set up effective TP procedures. Additionally, SMEs can have trouble getting access to the tools and knowledge required to create efficient TP policies and paperwork. It can be challenging for SMEs to find the reliable comparative data required to calculate arm's length costs, according to the Organisation for Economic Co-operation and Development (OECD) (OECD, 2018).

This shows that Zimbabwe, a country where the SME sector is anticipated to represent the backbone of the economy, does not currently have an investment-friendly environment. The majority of the TCs concurred that the SMEs sector is destroyed by the tax rules, and they

opposed this resolution on the grounds that it punishes small businesses in the area. This is in line with Solilova's (2019) belief in safe harbour tax advantageous arrangements for SMEs. Numerous studies have also shown a connection between SMEs and unfavourable tax policies (Agu and Aruomah, 2019; Miller, 2018; Santhariah et al, 2018; Majoni et al, 2016; Ocheni and Gemade, 2015). In general, domestic TP repercussions appear to violate taxation regulations, the basis for in-country TP and to fall short of achieving the stated outcomes. The survival and growth of SME's are strongly correlated with high economic activity, which should lead to larger tax receipts.

5. CONCLUSION

The initial assessments of Zimbabwe's TP rules demonstrate that Zimbabwe accepted international standards. Legislative and administrative shortcomings stifle these attempts. Since the international criteria are not all inclusive, the country's particular circumstances must be dealt with on a domestic level. Zimbabwe has established TP rules that local businesses must also abide with.

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